

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-03 PRS-01 USIA-15 ABF-01 TAR-02

AGR-20 RSR-01 /194 W

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R 161853Z AUG 73

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 2583

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY ROME

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USMISSION EC BRUSSELS UNN

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: FULL TEXT PROVIDES FURTHER POINTS IN GISCARD TIME INTERVIEW

1. EMBASSY HAS RECEIVED FULL TEXT FINANCE MINISTER VALERY GISCARD D'ESTAING'S INTERVIEW WITH TIME MAGAZINE. AN IMPORTANT CLARIFICATION, AND SEVERAL OTHER POINTS EMERGE.

2. MTN- FULL TEXT SHOWS "SOFTER" LINE THAN MAGAZINE INDICATES.

TEXT IS: BEGIN QUOTE. QUESTION: IS THE MONETARY SITUATION

AN OBSTACLE TO STARTING NIXON ROUND?

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ANSWER: FOR US IT WAS VERY SIMPLE: WE COULDN'T DISCUSS A
TARIFF REDUCTION OF 4 PERCENT WITH A DOLLAR FLOATING AT 15 PER-
CENT BELOW THE VALUE WE HAD FIXED, AND AS UP TO THE MONTH OF
JUNE OUR AMERICAN PARTNERS SAID, 'WE DON'T WANT TO TALK ABOUT
THE VALE OF THE DOLLAR.' OUR POSITION WAS WE WOULD DISCUSS
TRADE ONLY IF WE KNOW TOWARDS WHAT PARITY THE WORLD MONETARY
SYSTEM WAS TENDING SO AS TO MEASURE THE COMPETITIVE POSITION
OF OUR PRODUCTS. SINCE THE AMERICANS HAVE BEGUN TO TAKE MEASURES
TO SUPPORT THE DOLLAR, THE CONDITIONS ARE BECOMING MORE FAVORABLE.
OF COURSE FRESH UPHEAVALS ARE TO BE VOIDED BETWEEN NOW AND THEN.
END QUOTE.

THE FULL QUOTATION CLEARLY PUTS GISCARD'S MTN RESERVATIONS IN
THE PAST TENSE.

ON AGRICULTURAL TRADE, GISCARD ELABORATED ON POINTS MADE REFTEL
AS FOLLOWS: BEGIN QUOTE. THE EVOLUTION OF WORLD DEMAND
FOR AGRICULTURAL PRODUCTS MEANS THAT THESE NEGOTIATIONS WILL OPEN
IN AN ENTIRELY DIFFERENT PERSPECTIVE... DECISIONS TAKEN TO
INTERRUPT OR TO CONTROL EXPORT OF AGRICULTURAL PRODUCTS TO
EUROPE HAVE A CONSIDERABLE POLITICAL AND PSYCHOLOGICAL EFFECT
BECAUSE THE FRENCH AND EUROPEAN PRODUCERS, ESPECIALLY BREEDERS,
SAID TO THEMSELVES, "WE HAVE BEEN ASKED TO OPEN OUR BORDERS SO
THAT THE U.S. CAN SUPPLY US IN SOYA BEANS AND CORN. IF THERE
IS A BAD HARVEST IN THE U.S. OR AN UNFAVORABLE ECONOMIC SITUA-
TION WE RISK NOT GETTING ANY SUPPLIES.' TO EUROPEAN THIS WAS
PROOF THAT A LARGE AGRICULTURAL AREA LIKE WESTERN EUROPE MUST
COVER A LARGE PART OF ITS NEEDS ITSELF, SO AS TO BE ABSOLUTELY
PROTECTED AGAINST ANY MISHAP.END QUOTE.

3. STEPS TO INTERNATIONAL MONETARY REFORM- GISCARD NOTED
HIS "VERY FRANK" DISCUSSIONS WITH SECRETARY SCHULTZ, ON HOW
THEY AND THEIR BRITISH AND GERMAN COUNTERPARTS ARE ON A FIRST
NAME BASIS "FOR THE FIRST TIME IN MONETARY HISTORY." HE NOTED
"THE DAY WHEN IT WILL BE POSSIBLE FOR A COUNTRY HOLDING DOLLARS
TO OBTAIN ANOTHER FORM OF ASSET, THE SYSTEM WILL BE CONSIDERED
REESTABLISHED." HE SAW A SOLUTION IN PLACE BY THE SPRING, AND
DIVIDED QUESTIONS YET TO BE SOLVED INTO TECHNICAL AND POLITICAL.
FORMER INCLUDE "FUTURE STATUS" OF SDR'S, SPECIFICALLY "WHAT
SHOULD THEIR VALUE BE, WHAT INTEREST RATE SHOULD THEY EARN,
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HOW MANY SHOULD BE CREATED ANNUALLY, AND HOW, AND WHAT SHOULD BE
THE LINK BETWEEN DR'S AND AID TO DEVELOPING COUNTRIES." HE SEES
THESE AS SUBJECT OF DISCUSSIONS AT NAIROBI. "POLITICAL" QUESTIONS
ARE DEFINED AS "THE RESPECTIVE ROLES OF SDR'S, GOLD AND RESERVE
CURRENCIES." ON THESE, HE EXPECTS "CONCLUSION WILL NOT BE DRAWN
BEFORE THE BEGINNING OF 1974." HE EXPECTS ONE OR TWO DEPUTIES'
MEETING WILL BE NECESSARY AFTER NAIROBI, BEFORE A NEW MINISTERIAL
MEETING CAN BE HELD WHICH WILL INSTITUTE THE "COMPLETELY NEW"

SYSTEM. AFTER POLITICAL AGREEMENT " THERE WILL STILL BE A LOT
.../...STONE

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OF COMPLICATED PROBLEMS DRAWING UP ARTICLES AND STATUTES,"
ENDING WITH "A NEW INTERNATIONAL MONETARY AGREEMENT THAT MUST
BE RATIFIED BY ALL PARLIAMENTS CONCERNED."

4. SHAPE OF MONETARY REFORM

A. PENALTIES FOR SURPLUS COUNTRIES - GISCARD DISCUSSED THE
"RAPPROCHEMENT" BETWEEN PARIS AND WASHINGTON WHICH HE SAID WAS
"ALLOWED" BY HIS PROPOSAL FOR PENALYZING SURPLUS COUNTRIES,
HENCE ANSWERING AMERICAN "PREOCCUPATION WITH HAVING COUNTRIES
WITH EXCESS RESERVES CORRECT THIS SURPLUS." HE ELABORATED ON

HIS PROPOSAL AS FOLLOWS: "FOR DEVALUATION AND REVALUATION THE
IDEA IS MORE OR LESS TO KEEP THE FORMER SYSTEM, BUT TO MAKE IT
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MORE SPECIFIC. THERE WILL BE A SERIES OF INDICATORS: THE TOTAL
RESERVES IS THE MOST IMPORTANT TO MY MIND, THE EVOLUTION OF THE
BASIC BALANCE, AND THE EVOLUTION OF THE TRADE BALANCE. THESE
THREE INDICATORS WILL BE EXAMINED AND THE FUND COUNCIL WILL TAKE
THE INITIATIVE OF INVITING A CERTAIN COUNTRY TO EITHER REVALUE
OR DEVALUE. THIS WILL BE DONE BY CONSULTATION WITHIN THE NEW
MONETARY FUND, NOT BY ANY AUTOMATIC MECHANISM." HE NOTED THAT
HIS PROPOSAL "WAS WELL RECEIVED BY OUR PRINCIPAL PARTNERS AND
MAKES A SOLUTION POSSIBLE."

B. ORGANIZATION UNDER NEW AGREEMENT - GISCARD NOTED THAT UNDER
PRESENT IMF "WHAT IS TAKING IS A FORUM OF POLITICAL DECISION
MAKING," THE PRESENT ANNUAL ASSEMBLIES CONSISTING OF "SOCIAL
EVENTS" AND "SPEECHES WHICH WE ALREADY KNOW BY HEART." HE
CONCLUDES, "SO I THINK THAT THE IDEA OF RETAINING A STRUCTURE
LIKE THE GROUP OF TWENTY - I DON' T SAY EXACTLY THE SAME - BUT
I MEAN SOMETHING MORE RESTRICTED THAN THE IMF MEETING - IS
INDISPENSABLE FOR THE PROPER FUNCTIONNING OF A NEW INTERNATIONAL
MONETARY SYSTEM."

C. GOLD - GISCARD NOTED THAT, "THERE IS STILL AN IMPORTANT
PLACE FOR GOLD. IF YOU TAKE THE VIEW THAT MARKET FORCES
SHOULD PLAY A CERTAIN ROLE IN THE MONETARY FIELD, HOW CAN
YOU LEAVE OUT ONE ELEMENT WHICH EXISTS AND HAS ALREADY
APPRECIATED IN THE MARKET - GOLD? A CERTAIN NUMBER OF TRADING
PARTNERS STILL SETTLE THEIR ACCOUNTS IN GOLD, FOR EXAMPLE THE
SOCIALIST COUNTRIES. SO OUR THESIS IS THAT WE SHOULD NOT BE
DOGMATIC. WE MUST USE THE NEW CREDIT INSTRUMENTS WHILE REMAINING
FREE TO USE GOLD." HE NOTED THAT THE POSITION OF JACQUES RUEFF
"HAS NEVER BEEN THE OFFICIAL POSITION OF THE FRENCH GOVERNMENT."

5. THE CURRENT MONETARY SITUATION - GISCARD NOTED HE HAD
PREDICTED THE DOLLAR WOULD RISE "AND OF COURSE IT HAS AND WILL
CONTINUE TO." (HE NOTED ELSEWHERE THAT "OUR FEELING AND SECRETARY
SCHULTZ' S IS THAT THE LEVEL...FIXED LAST FEBRUARY OUGHT
TO SERVE AS THE REFERENCE POINT.") HE ATTRIBUTED DECLINE
TO "MISTAKEN IMPRESSIONS" THAT NO ONE WAS CONCERNED WITH MARKET
SITUATIONS, TO POLITICIANS (PRESUMABLY FRENCH) FREEWHEELING
REMARKS ("POLITICAL FIGURES STARTED TALKING ABOUT DEVALUATION
AND REVALUATION IN EVERY DIRECTION, SENDING THE MARKETS INTO A
PANIC"), AND TO LAGS IN REPORTING ECONOMIC DATA LIKE IMPROVEMENT
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U.S. TRADE BALANCE. HE NOTED THAT "DECISION TO INTERVENE IN THE MARKETS HAD A CALMING EFFECT. IT DID NOT FUNDAMENTALLY ALTER THE EXCHANGE LEVELS, BUT IT INDUCED PEOPLE TO MAKE MORE OBJECTIVE APPRAISALS OF THE SITUATION."

6. INFLATION AND COMMODITY PRICES - GISCARD NOTED THAT "WORLD INFLATION AND THE DISORDER OF THE INTERNATIONAL MONETARY SYSTEM WERE A RESULT OF THE ACCUMULATED DEFICITS OF THE 1962-72 PERIOD. THAT PERIOD IS OVER." HE ATTRIBUTED THE PRESENT PROBLEM OF INFLATION IN EUROPE TO "INTERNATIONAL MONETARY DISORDER" AND THE GENERAL INCREASE IN COMMODITY PRICES, LINKING THE TWO "BECAUSE THE INCREASE IN THE PRICE OF CERTAIN RAW MATERIALS IS CREATED BY PRODUCERS WHO HAVE NO CONFIDENCE IN THE VALUE OF THE CURRENCY IN WHICH THEY ARE PAID," AND CITING THE GRAIN AND OIL MARKETS AS EXAMPLES. HE NOTED THAT IN WASHINGTON HE HAD PROPOSED MEETINGS "AMONG THE MAJOR COMMODITY PRODUCING COUNTRIES" WITHIN OECD FRAMEWORK. HE NOTED "THE AMERICANS AGREE THAT WE MUST DO SOMETHING ABOUT COMMODITY PRICES," AND SAID THE OECD "MIGHT" MAKE SOME INITIATIVES IN SEPTEMBER, AT HIS SUGGESTION.

7. POST-INFLATION - AS HE SEES IT, GISCARD SAID THE PROBLEM IS "AFTER INFLATION, WHAT? HE NOTED "THE PRESENT WORLD DEMAND SITUATION IS INFLUENCED BY THE EXPECTATION OF FURTHER INFLATION AND POSED THE QUESTION OF WHAT WOULD HAPPEN SHOULD THIS END. HE STRESSED THE NEED FOR A COORDINATED RAW MATERIALS POLICY, AND ADDED "WE MUST ALSO AVOID ANY ADDITIONAL ARTIFICIAL DEMAND AND INSTEAD SAVE IT UNTIL THE EXCESS DEMAND HAS DISAPPROVED." HE GAVE NO ELABORATION.

9. EUROPEAN MONETARY COOPERATION - "AT THE EUROPEAN LEVEL", GISCARD SAID, "WE CANNOT DO ANYTHING (TO COMBAT INFLATION) AS LONG AS THE BRITISH AND ITALIANS' MONETARY PROBLEMS ARE NOT SOLVED. AS LONG AS ONE GROUP WITHIN THE COMMUNITY HAS A UNIFIED MONETARY SYSTEM AND THE OTHER TWO ARE IN A COMPLETELY DIFFERENT SITUATION, NO PROGRESS IS POSSIBLE." "THE BRITISH", HE SAID, "SHOULD CHOOSE A PARITY THAT CORRESPONDS TO THEIR SITUATION", ADDING REGRET THAT THIS DIVISION DEPRIVED EUROPE OF AN OPPORTUNITY "TO TAKE AN IMPORTANT STEP FORWARD IN ITS UNITY." HE SAID HE WAS STILL "VERY OPTIMISTIC" FOR THE MONETARY UNION BY 1980. STONE

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